

# **Consumer Demand for Quality Differentiated Beef: Implications for the Industry**

**Jayson Lusk**

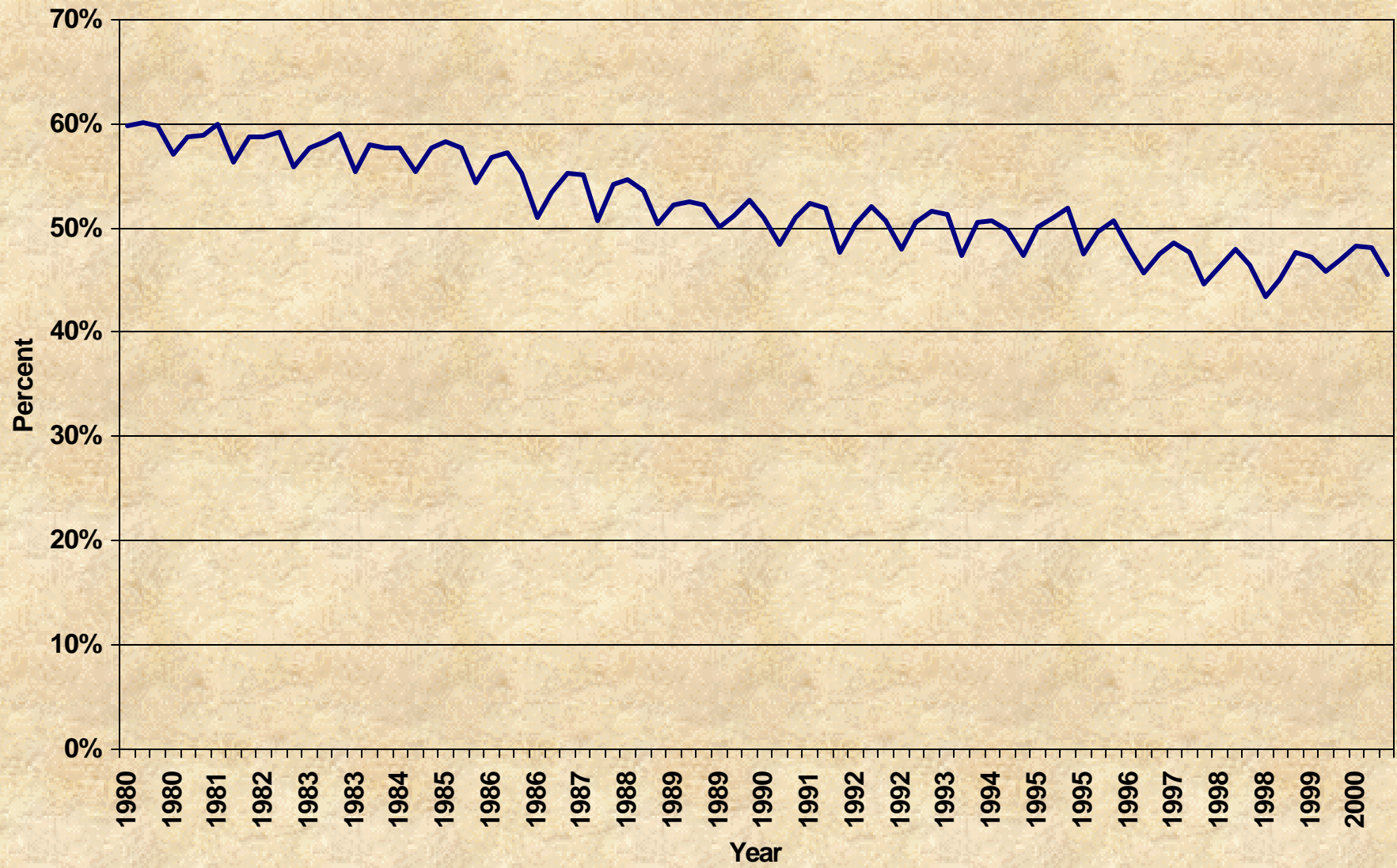
**Mississippi State University**

# Beef Industry Trends

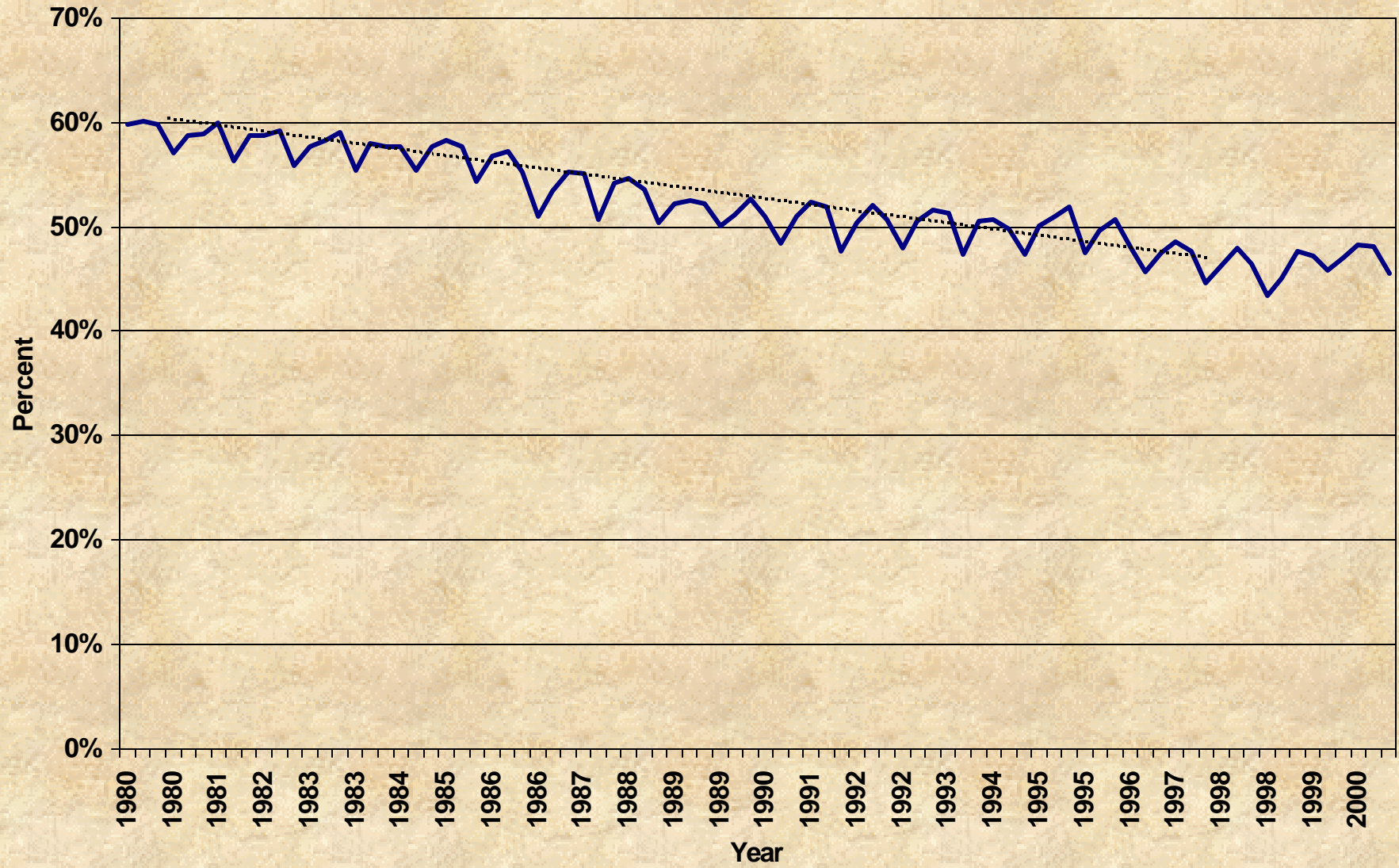
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- **Declining beef market share –  
declining demand for past 20 years**

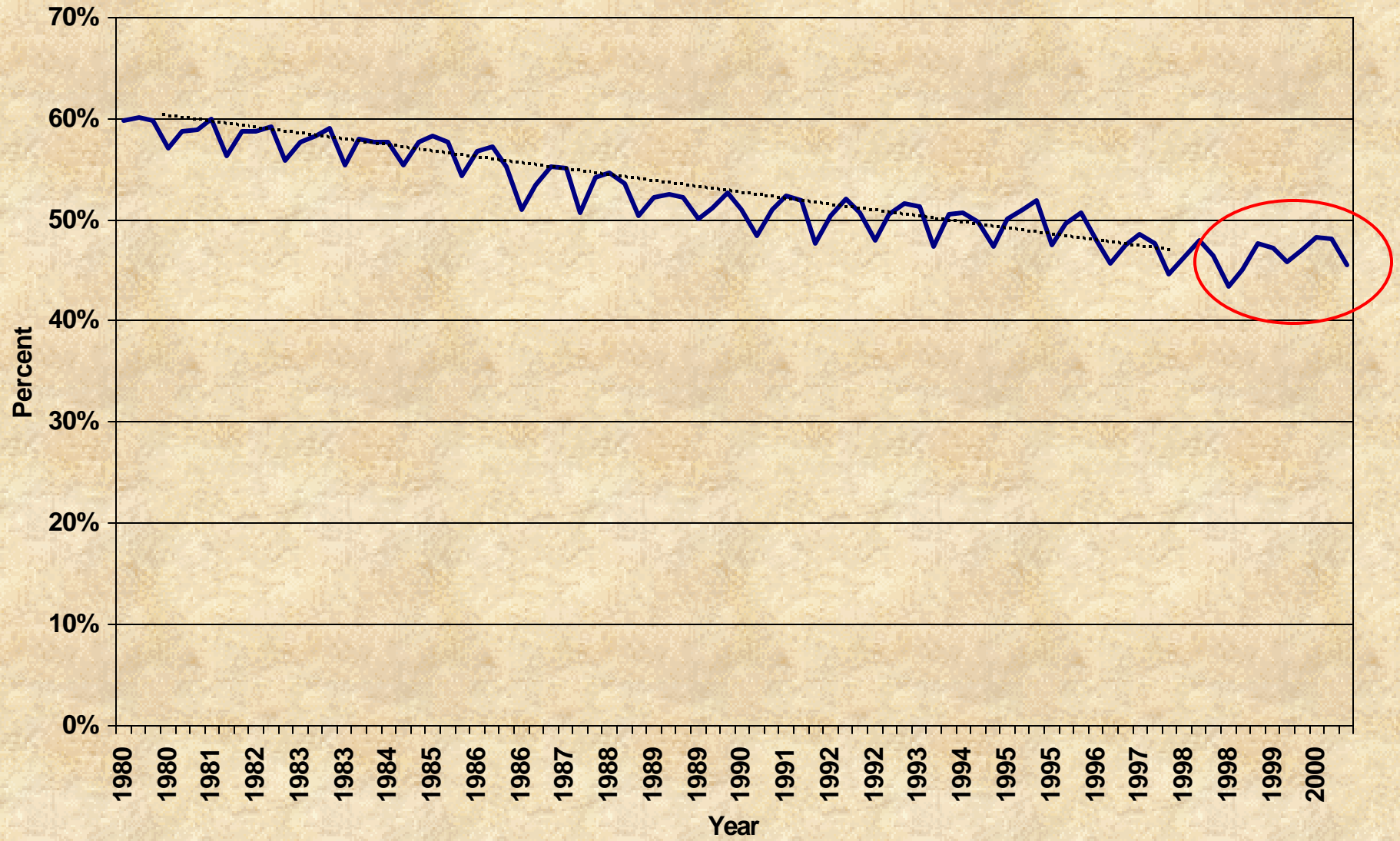
**Beef's Share of Total Meat Expenditures (1980 - 2000)**



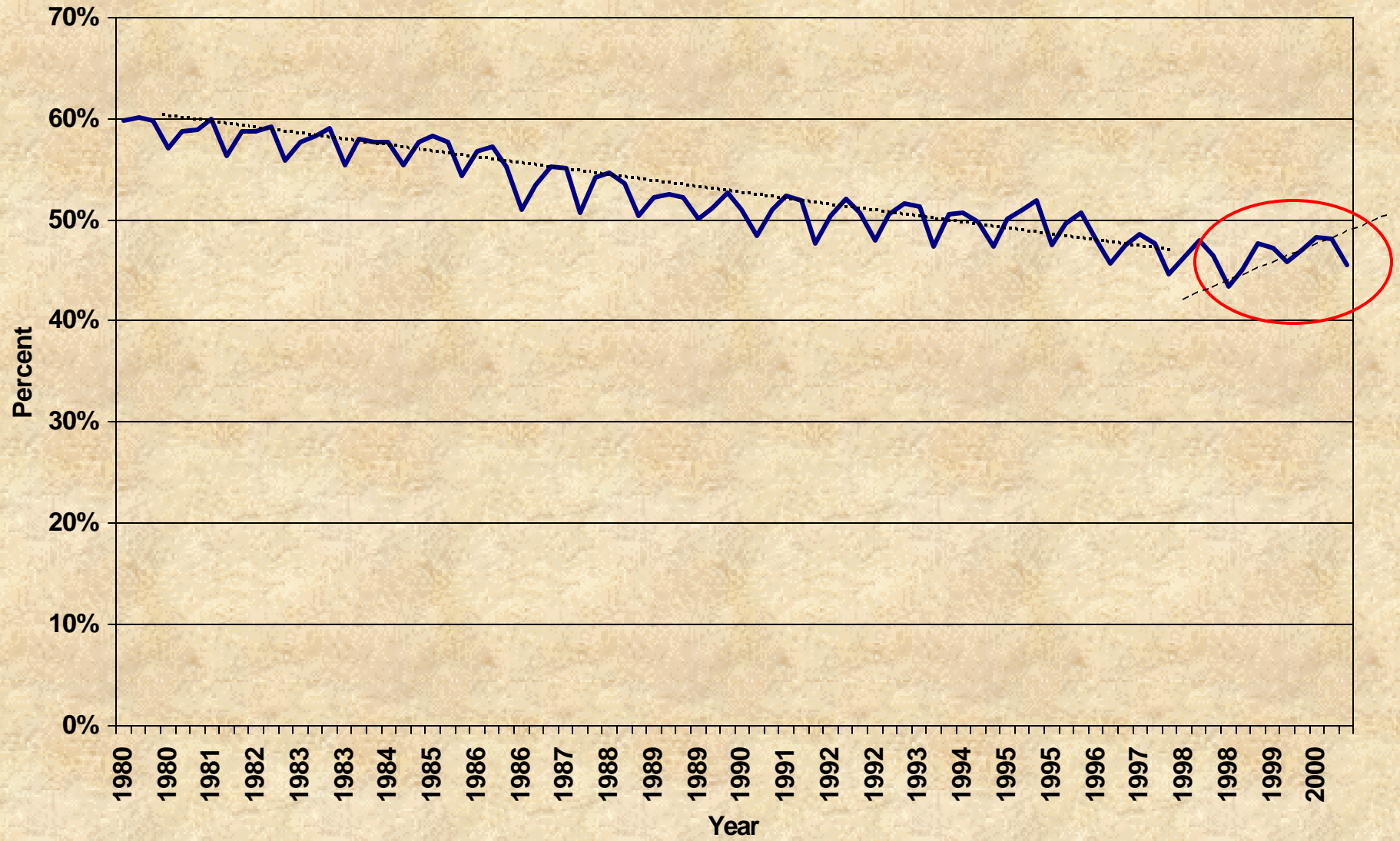
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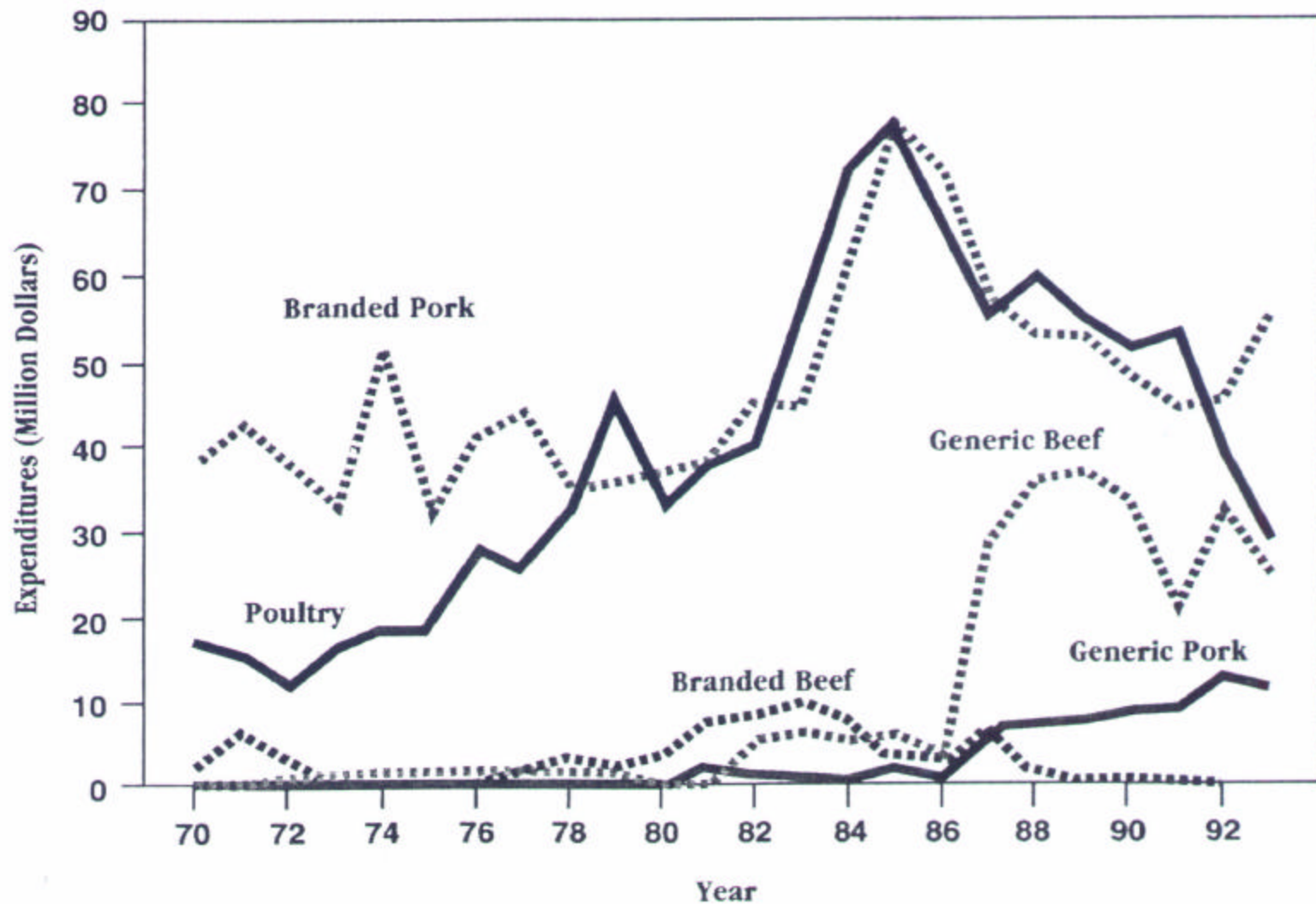


# **Beef Industry Trends**

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- **Declining beef market share – declining demand for past 20 years**
- **Increased percentage of steer & heifer slaughter that is quality graded - from around 60% in late 80s to over 90% today**
- **Increased branding & labeling – however branded beef comprise a small portion of total beef sales**

# Advertising Expenditures on Branded and Generic Meat



# Traditional Beef Marketing

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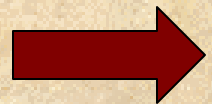
- **Beef is one of the few remaining products in grocery stores without a brand**
- **Generic, commodity product**



# **Traditional Beef Marketing**

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- **Beef is one of the few remaining products in grocery stores without a brand**
- **Generic, commodity product**



**Consumers have been unable to  
associate an eating experience with a  
brand**

# Differentiated Beef

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- **Differentiated/Branded beef may increase demand by providing consumers with the product they desire**

# Differentiated Beef

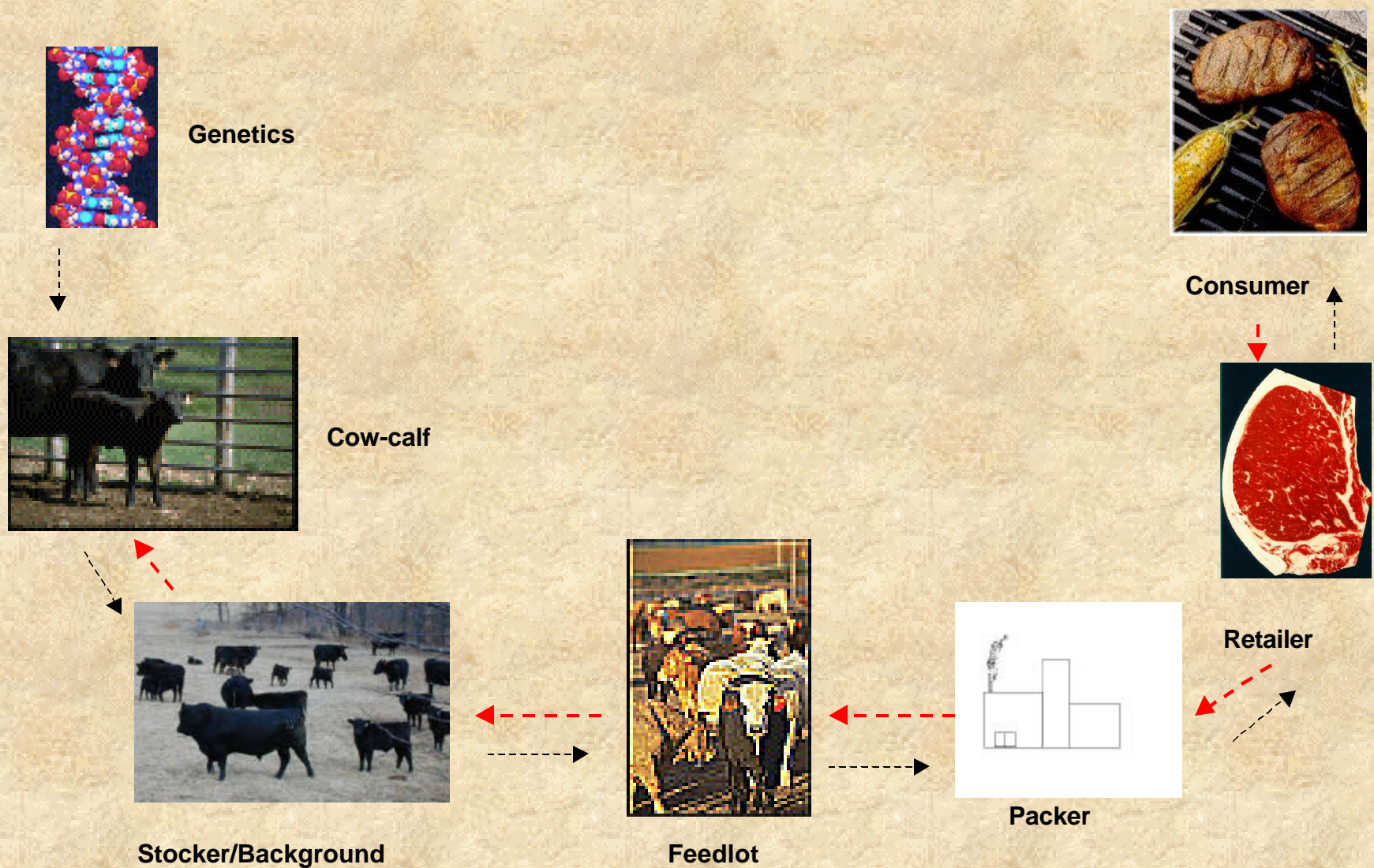
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- **Differentiated/Branded beef may increase demand by providing consumers with the product they desire**

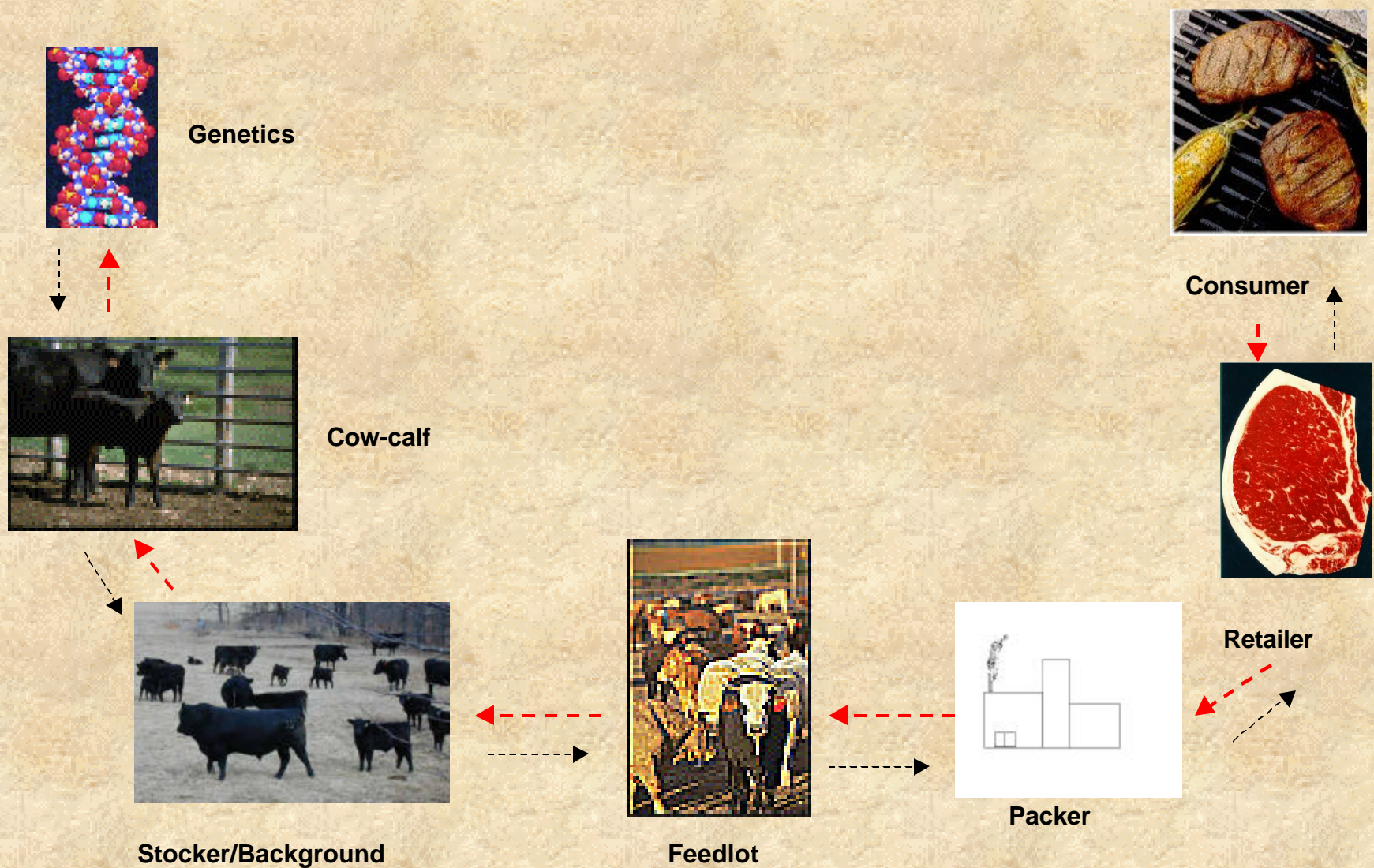
**Should cattle producers, beef packers, and/or retailers brand their beef?**

**If so how?**

# Beef Marketing Chain



# Beef Marketing Chain



# **Advantages of Branding**

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- **Consumers can identify the meat they want**
  - **willing to pay a premium to ensure positive eating experience**
- **Consumer demand for branded beef may be less price responsive**
- **Firms selling branded beef may be able to acquire a degree of market power**

# **Disadvantages of Branding**

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- **Increased segregation and labeling costs**
- **Increased production costs**
- **Quality consistency**
- **Branded attribute may be undesirable**

# **Demand for Differentiated Beef**

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- **Will added value of branding outweigh the costs?**
  - **depends on consumer demand for the branded beef product**
- **There are currently numerous differentiation strategies**
  - **relative costs and benefits vary for each case**

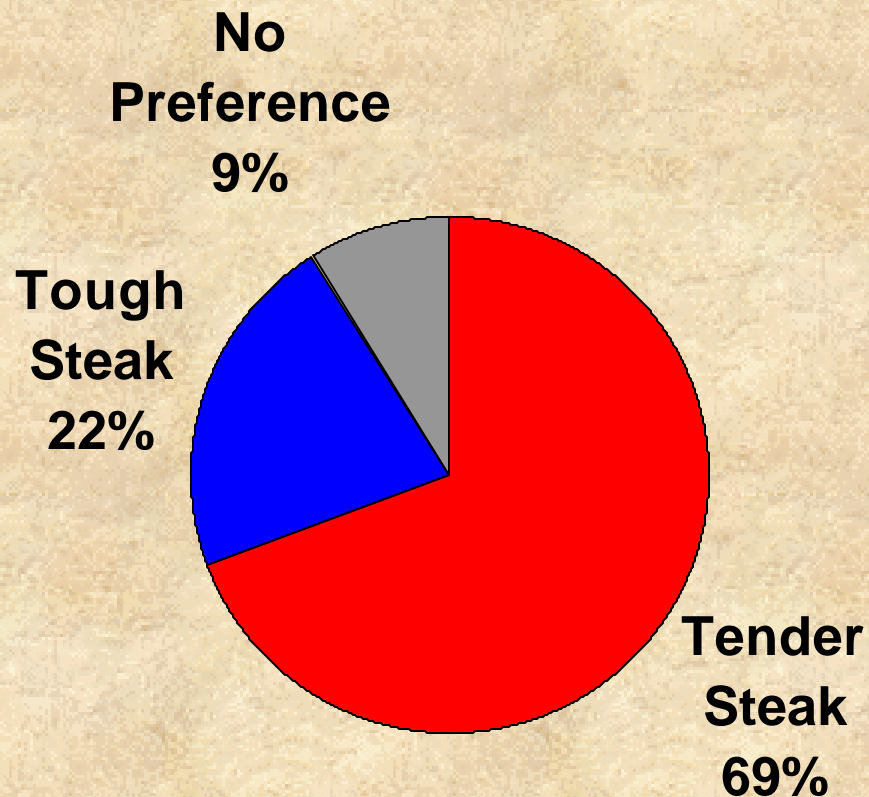
# **Beef Tenderness**

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- **Often identified as the most important palatability attribute of meat**
- **New technologies are allowing timely tenderness identification**
- **New technologies have been developed to tenderize beef**

# Consumer Preferences for Steak

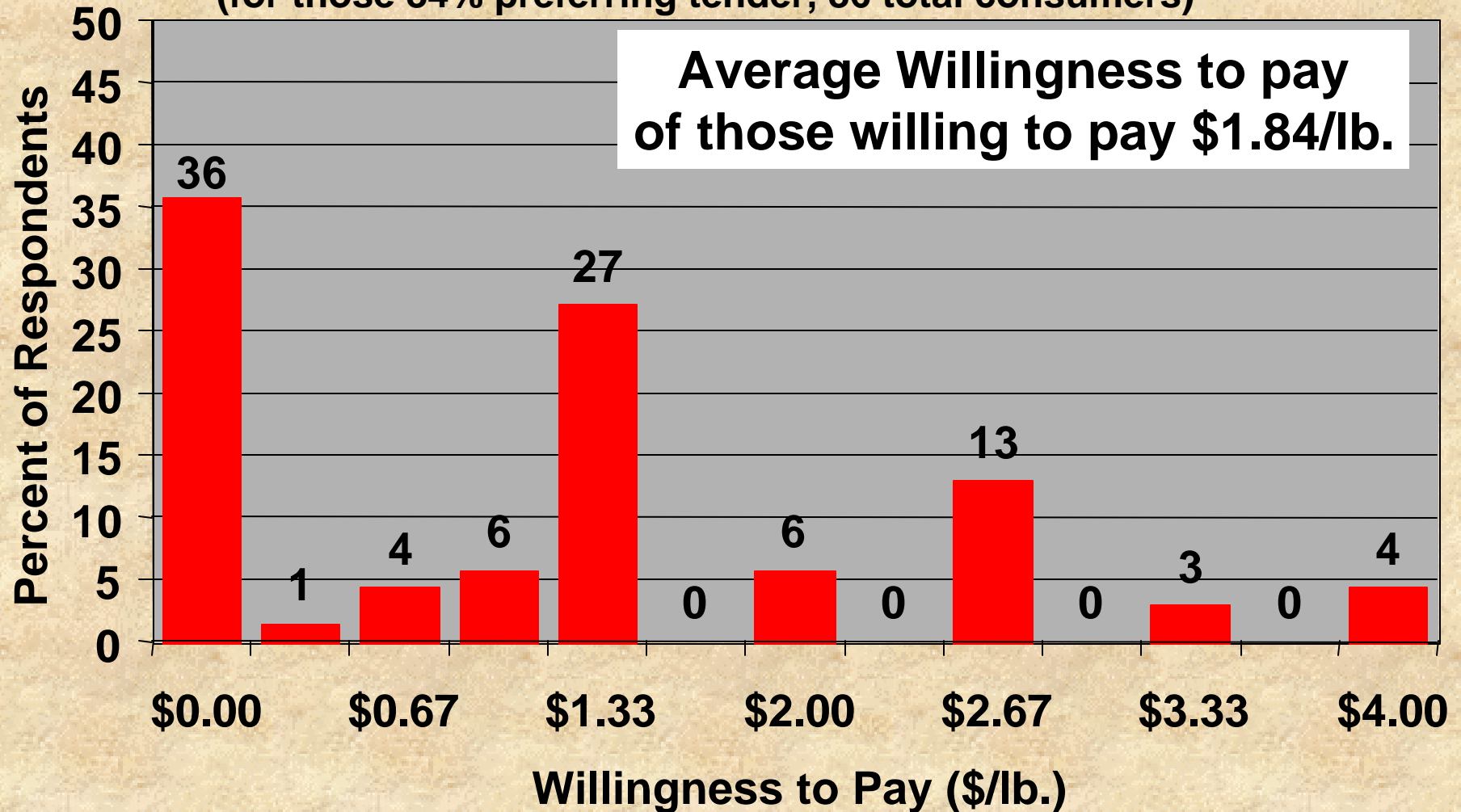
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**Blind Taste Test**  
(227 consumers)

# Consumer Willingness to Pay for Guaranteed Tender Relative to Tough Ribeye Steak

(for those 84% preferring tender, 86 total consumers)



# **Animal Production Practices**

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- **Over 90% of all fed cattle are administered growth hormones in the U.S.**
- **Much of the fed cattle are fed genetically modified corn**
- **Consumer concern for such production practices is high**

# Animal Production Practices

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## Ribeye Steak Prices in Kansas City – April 1, 2000

<b>Location</b>	<b>USDA Grade</b>	<b>"Typical" Steak</b>	<b>"Hormone-free" Steak</b>
Wild Oats	none		\$11.99/lb.
Hen House	none		\$9.99/lb.
Dean & Deluca	Prime		\$24.95/lb.
Dillons	Select	\$7.49/lb.	
Dillons	Choice	\$8.49/lb.	
Food-4-Less	none	\$6.88/lb.	
Target	Choice	\$4.99/lb.	\$9.49/lb.

# Animal Production Practices

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Attribute	Willingness-to-Pay Premium			
	France	Germany	UK	US
Non-Hormone Treated Beef	\$9.34	\$6.99	\$8.72	\$6.98
Animal Fed Non-GMO Corn	\$9.18	\$7.63	\$7.47	\$3.23

# **Beef Safety**

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- **Publicity of illness, deaths, and recalls due to bacterial contamination has heightened public awareness about safety**
- **Technological Innovations are Improving Beef Safety**
  - **Beef Irradiation**
  - **Hot Water Pasteurization**
  - **Steam Pasteurization**

# Beef Safety

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- **Over 80% of surveyed consumers willing to pay a premium for “steam pasteurized” beef – on average \$0.32/lb.**
- **Cost**
  - **\$0.09/head to \$0.30/head**

# Marbling

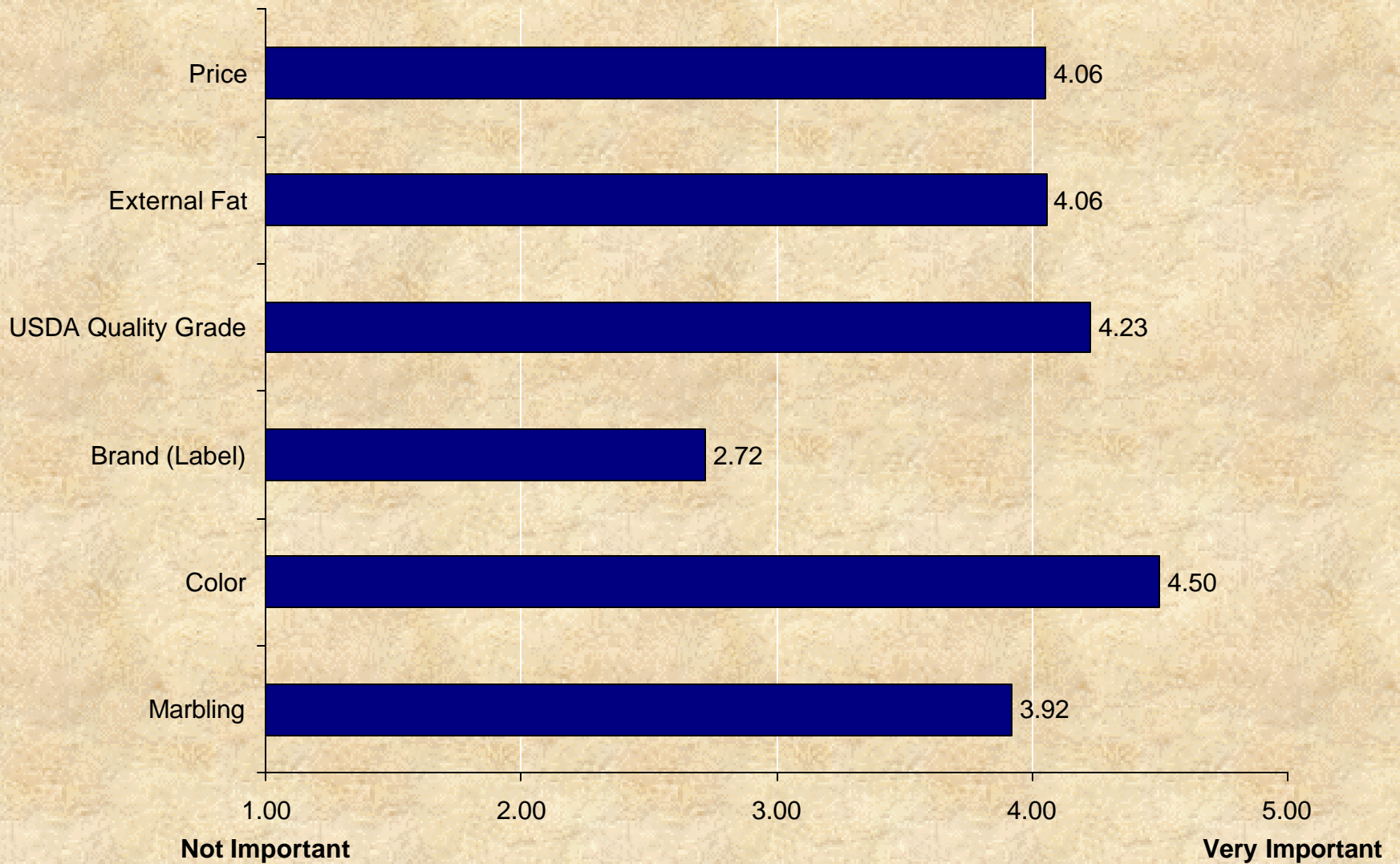
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## **Two divergent groups of consumers:**

- high marbling preferring**
  - at one point in 1999, Choice boxed beef sold at a \$15.00/cwt. premium over Select**
- low marbling preferring**
  - in visual evaluation, consumers were willing to pay a \$4.00/lb premium for slight versus abundant marbled steak**

# Relative Importance

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649 consumers

# Implications for the Industry

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- **Early adopters will derive largest benefits**
- **Many firms are beginning this process:**
  - **USDA/AMS lists 40 certified firms:**
    - Breed Certification: Certified Angus or Hereford**
    - Private Retail Brand: Laura's Lean, Coleman Natural**
    - Packer Brand: Monfort Angus, Farmland Angus**
  - **USDA/FSIS has label specifications for:**
    - certified**
    - organic**
    - natural**
    - no hormones administered**

# **Implications for the Industry**

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- **Will only one brand be successful?**
  - **consumers are heterogeneous**
  - **tastes and preferences change**
  - **appears to be room for differentiated products**

# **Implications for the Industry**

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- **How will firms ensure quality?**
  - **contracts**
  - **traditional marketing channels**

# Implications for the Industry

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- **Will branding force the industry to move toward a more coordinated system?**

# **Implications for the Industry**

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- **How will “identity preservation” requirements associated with branding influence packing facilities and feedlots, designed to deal with producing high volume at minimum cost?**